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A study of alliance dynamics, accounting and trust-as-practice

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ABSTRACT

Adapting Callon's three-phased model of translation, this paper investigates the formation and development of an outsourcing alliance. It also maps the changing connections between trust and accounting. Instead of theorising trust as a noun, the paper defines trust as situated practice: an accomplishment constructed through the actions and routinized practices of multiple actors, both human and non-human. Trust/trustworthiness was observed to be not one thing but many - diverse notions emerging from the 'doing' of routines enacted in the name of trust. Accounting was centrally entangled in the birth of the alliance, its structuring and in the routines to find and select trustworthy suppliers, to monitor them regularly in order to justify ongoing trusting, and to repair growing distrust. Finally, the origins of the alliance crucially affected its subsequent trajectory - earlier investment in finding trustworthy suppliers meant that later poor performance not only generated strong disappointment but came to be seen as a breach of trust and a failure to honour promises.

1. Introduction

The use of interfirm alliances as vehicles for value creation has become widespread among contemporary corporations (Coletti, Sedatole, & Towry, 2005; Luo, Rindfleisch, & Tse, 2007). Supply alliances, in particular, have come to be seen as significant 'sources of competitive advantage' and many organisations in the West have sought to rationalise their supply base, invest in the training and development of their suppliers, and pursue more interactive and recurrent relationships with them (McIvor, Humphreys, & McAleer, 1997; Melnyk, Davis, Spekman, & Sandor, 2010; Spekman, Isabella, & MacAvoy, 2000).

Despite the potential for alliances to serve as sources of value creation, they are said to be "characterized by a high level of dissatisfaction with their actual outcomes relative to expectations and, correspondingly, a high rate of failure" (Madhok & Tallman, 1998, p. 326). Anderson and Sedatole (2003) quote statistics reporting that over 60 per cent of alliances fail. How do we reconcile the popularity of the phenomenon and its high failure rate? Why do alliances that are begun with enthusiasm fail? Could it be that we know too little about the 'doing' of collaboration over time? In the last decade, despite research, there remain concerns that we lack knowledge about 'network dynamics' and how alliances develop and change (see Ahuja, Soda, & Zaheer, 2012; Schulte, Cohen, & Klein, 2012; Zaheer & Soda, 2009). Questions remain - how and why do organisational networks (such as alliances) emerge, evolve and indeed die? Ahuja et al. (2012) point out that one of the most important reasons for greater investigation of such dynamic processes is that our knowledge of network/alliance outcomes can only be partial without an appreciation of the genesis and movement of the structures that resulted in such outcomes.

Few accounting studies have examined the dynamics of interfirm alliances and their association with accounting (see Hakansson & Lind, 2004; Mouritsen & Thrane, 2006 as exemplars of a small sample of such studies). Extant work tends to be static in nature (see for example, Anderson, Dekker, & Van den Abbeele, forthcoming; Anderson & Dekker, 2005; Baiman & Rajan, 2002a; Dekker, 2004, 2008; Drake & Haka, 2008; Van der Meer-Kooistra & Vosselman, 2000, Vosselman & Van der Meer-Kooistra, 2009). The first aim of this paper is to address this gap. It seeks to explore how and why alliances originate and change over time, and what happens to accounting during the period. We adapt Callon's (Callon, 2007; Callon, Lascoumes, & Barthe, 2009) three-phased model of translation to analyse the origins and trajectory of alliances and the connections with accounting.

We also seek to investigate the connection between trust and accounting controls. This has long been a subject of interest in the interfirm literature. To date, research has focussed on the following:

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(a) examining the functional relationships between trust (conceptualised as a mechanism for uncertainty absorption and as a social control) and accounting control (Dekker, Sakaguichi & Kawai, 2013; Dekker & Van den Abbeele, 2010; Dekker, 2004; Van der Meer-Kooistra & Vosselman, 2000), (b) clarifying the conceptualisation of trust and highlighting the implications for accounting research (Free, 2008; Vosselman & Van der Meer-Kooistra, 2009), (c) proposing optimal 'matches' or reporting associations between types of economic transaction, associated risks and governance mechanisms (Anderson, Christ, Dekker, & Sedatole, 2014; Van der Meer Kooistra & Vosselman, 2000) and/or (d) exploring the implications of the presence or absence of trust for accounting and control (Free, 2008; Velez, Sanchez, & Alvarez-Dardet, 2008). A question that has been repeatedly asked is, are trust and accounting controls substitutes or complements in the management of alliances and organisations more generally? The answers have been diverse: controls could signal a lack of trust (Das & Teng, 1998; Nicolaou, Sedatole, & Lankton, 2011), be necessary to build trust (Tomkins, 2001) or could both build or reduce trust (Emsley & Kidon, 2007).

Given ongoing debate, the second aim of this paper is to offer a different way to investigate the trust-accounting relationship in alliances. Here, we focus on trust as a situated form of practice. Influenced by practice theory (broadly defined) (see Reckwitz, 2002; Schatzki, Knorr-Cetina, & Savigny, 2001), the strategy-as-practice literature (see Golsorkhi, Rouleau, Seidl, & Vaara, 2015; Jarzabkowski, 2005; Johnson, Langley, Melin, & Whittington, 2007) as well as recent developments in trust research (Khodyakov, 2007; Mizrachi, Anspach, & Drori, 2007; Mollering, 2013), we focus on what people 'do' in the name of trust, on the routines and knowledges they draw upon as they search for, develop, maintain or destroy trust and trustworthiness. For decades, research on trust has sought to 'fix' what the phenomenon *is*, and numerous definitions and classifications of trust have emerged as a result: competence trust, cognition-based trust, goodwill/relational trust, calculative trust, systems trust and integrated trust (see Paul & McDaniel, 2004; Rousseau, Stkin, Burt, & Camerer, 1998; Sako, 1991, 1992). Focus has been on trust as a 'noun' (Wright & Ehnert, 2010). In this paper, we analyse trust as a practice; as a 'verb' – on trusting/distrusting as opposed to trust/distrust. We investigate the accounting-trust nexus as enacted by human and non-human actors; detailing how accounting becomes entangled in the activities performed to find and manage trustworthy suppliers as well as to 'discipline' them when 'doing' distrust.

In achieving the dual aims of this paper, we undertake a field study of an outsourcing alliance. The rest of the paper is structured as follows. The next section presents a brief literature review that flows into a discussion of the key theoretical anchors of the paper. Section 3 focuses on the research design and methods. We present our case analysis in Section 4 and we conclude in Section 5.

2. Review and theoretical anchors

Twenty years ago, Hopwood (1996, pp. 589–590) lamented that despite a "rhetoric of change and redirection in the name of keeping pace with the new commercial realities" accounting research has largely ignored interfirm collaborative relationships and "their implication for financial decision making and control". He, and others (Frances & Garnsey, 1996; Gietzmann, 1996) sought to stimulate research that engages with the 'new commercial realities' - in the form of close strategic, longer-term and/or collaborative relationships between actors. In response to this, accounting researchers began to examine the role of accounting in alliances, with some researchers focussing on the design of "ideal" control archetypes (e.g., Baiman & Rajan, 2002a; Hakansson & Lind, 2004; Langfield-Smith & Smith, 2003; Sartorius & Kirsten, 2005; Van der Meer-Kooistra & Vosselman, 2000); and others detailing the control mechanisms used (e.g., Dekker, 2004; Mahama, 2006; Tomkins, 2001), and the forms of open book accounting and information disclosure (e.g., Baiman & Rajan, 2002b; Drake & Haka, 2008; Van den Abbeele, Roodhooft, & Warlop, 2009).[1]

While the above studies add to our understanding of the alliance phenomenon generally, they close off interesting questions about the possibly diverse origins of these relationships and the dynamics of alliances. One is left with the impression that alliances always emerge 'rationally' or 'naturally' as a Darwinian outcome of natural selection when markets and firms fail. With such an economic lens, the processes and practices by which these relationships come into being and are sustained (or destroyed) remain opaque. How do actors and accounting change over the 'lives' of alliances? Do the origins of an alliance influence the subsequent operation of accounting? Could one discern generic 'stages' of development/change and find that certain modes of calculation are more or less 'successful'? We do not have good answers to these questions as the focus of much of the extant literature has been on the optimal design of accounting control; and suggests that interfirm alliances could be managed using relatively stable control design templates. Complex transactions with uncertain future outcomes are said to be best governed by 'trust-based' alliances since 'complete' contracts cannot be written *ex ante*. And, accounting controls are argued to be more effective in alliances contracting for less complex transactions of commodities or simple services (Van der Meer-Kooistra & Vosselman, 2000). The interaction, negotiations and transformations that precede and/or come after the signing of contracts are either ignored or taken as given and we know little of the role of third or fourth parties in buyer-seller alliances (for exceptions see Chua & Mahama, 2007; Mouritsen & Thrane, 2006). Noting the paucity of process-focused research in interfirm alliance settings, Caglio and Ditillo (2008) argue that the relational dynamics in interfirm alliances can change throughout their life cycle and that by studying these relationships at a single point in time, certain evolutions and their differential impact on control choices could be completely lost.

How and why do these alliances emerge? What influences their design and mode of operation? How are accounting and trust implicated in the emergence and life of an alliance?

2.1. Collective experimentation with matters of concern: a three-stage model of translation

In seeking to answer the questions above, we draw on the work of Callon and in particular his arguments for the study of economization – "the processes that constitute the behaviours, organizations, institutions and, more generally the objects in a particular society which are tentatively and often controversially qualified, by scholars and/or lay people, as 'economic'" (Caliskan & Callon, 2009, p. 370). For Callon, the economy and 'economic' arrangements (such as markets, firms, alliances) are an achievement rather than a pre-existing reality that is simply revealed and assumed. Thus, for example, an alliance is not a 'natural' phenomenon that is presumed to emerge due to the failure of 'markets and hierarchies'. Instead, it is a socio-technical arrangement (agencement) made up in historically-specific ways by and through human actors as well as "materialities" (Caliskan & Callon, 2009, p.384; Callon, 2007) such as instruments, tools, and calculative devices (like accounting), and through dynamic processes of problematization. Central to

[1] See Caglio and Ditillo (2008) for a comprehensive review of the literature on accounting controls in interfirm alliances.